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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 000490

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E.O. 12958: DECL: 03/02/2017
TAGS: EINV ECON ETRD EPET CH TW
SUBJECT: TAIWAN PETROCHEMICAL INVESTMENT PLANS FOR PRC
STILL STIFLED BY RESTRICTIONS

REF: A. TAIPEI 25

¶B. 06 TAIPEI 1481
¶C. 05 TAIPEI 3122

TAIPEI 00000490 001.3 OF 002

Classified By: AIT Economic Section Chief Daniel K. Moore, Reason 1.4 d

¶1. (C) Summary: After seventeen years of planning, Formosa Plastics Corporation (FPC) is still waiting for Taiwan to lift restrictions on naptha cracker investment in the PRC. FPC's Chairman told AIT that its plan to build a naphtha cracker complex near Shanghai is necessary to compete in the rapidly growing Chinese market. Taiwan authorities' arguments about technology transfer and negative impact to the Taiwan economy do not make sense, he said. Nevertheless, it appears increasingly unlikely that the policy will change under the current administration. End summary.

¶2. (U) FPC, Taiwan's largest privately-owned petrochemical company, continues to make plans for the eventual construction of a naptha cracker and refinery facility in Ningbo, China, despite refusal by the Taiwan authorities to lift the ban on such investment in the PRC. FPC has been trying to get permission from Taiwan since at least 1990, when the PRC first authorized the company to build such a facility. After recent press reports that FPC would move forward with investment plans, FPC's Chief Executive Officer Wang Wen-yuan told reporters on February 12 that FPC would not proceed until it had approval from authorities on both sides of the Strait. The head of Taiwan's Petrochemical Industry Association Sydney Chow met with Taiwan's Minister of Economic Affairs Steve Chen on Feb. 13, 2007 to urge approval of the deal. The Ministry refused to approve the plan.

¶3. (C) On February 27, FPC Chairman C.T. Lee described for AIT the reasons why FPC feels it's necessary to build a naptha cracker and refinery in the PRC. He emphasized that FPC currently exports approximately 50 percent of its Taiwan petrochemical output to Mainland China. He called that ratio too risky, arguing that exporting 10 to 20 percent would be a more sound strategy. According to Lee, there is no room for further expansion in Taiwan.

(Note: FPC built its newest naptha cracker facility on reclaimed land in Yunlin County, Taiwan, after changing locations twice due to local opposition. It is now proceeding with plans to build a steel mill in Yunlin and once again faces local opposition due to environmental concerns. End note.) He also complained of transportation costs, noting that FPC had already invested heavily in downstream petrochemical facilities in Ningbo, which require inputs produced by naptha crackers. In addition, Lee commented that it is difficult for FPC to compete with local PRC producers due to tariffs of over 6 percent on some petrochemical imports.

¶4. (C) "There is no reason not to allow us in China," Lee told us. He explained that a naphtha cracker complex would not transfer any new technology that is not already in use in the PRC. He said preventing construction of the complex would not keep investment in Taiwan because the company has no plans to build an additional facility in Taiwan. He stressed that a naptha cracker would cost about $800 million, which is smaller than semiconductor industry investment projects in the PRC that Taiwan has already approved. Lee acknowledged that the cracker project would also include an oil refinery, which would cost around US$2 billion to build. However, he emphasized that only a third of the total investment would be financed by FPC. The rest, he said, would come from Taiwan and foreign banks. He noted that excess liquidity in Taiwan's banking sector made banks hungry for solid investment projects. He added that CPC and other Taiwan petrochemical companies are also eager to expand their business in the PRC.

¶5. (C) Lee also said there was nearly a breakthrough to give FPC permission to build the naphtha cracker complex in the PRC about two years ago. (Comment: This breakthrough may have been thwarted by the PRC's passage

of the Anti-Secession Law at that time. End comment.) Lee speculated that the company may have to wait until after Taiwan's presidential election, suggesting that a Kuomintang Party administration would be likely to lift the ban on naptha cracker investment.

¶6. (C) Comment: The Chen administration has made significant progress in liberalizing cross-Strait investment during the last year, such as the lifting restrictions on some semiconductor and flat-panel display technologies (refs A and B). However, business leaders in industries like petrochemicals remain dissatisfied. With presidential elections looming and the cross-Strait agenda seemingly focused on charter flights and tourism, it appears unlikely that FPC will see a breakthrough during this administration.
YOUNG